JLT PENSION CAPITAL STRATEGIES

Press Release

Buyout activity accelerates in second and third quarters as de-risking continues - JLT Pension Capital Strategies

December 2012, London - JLT Pension Capital Strategies (JLT PCS), which specialises in corporate consulting and pension scheme de-risking, today announces its latest analysis of pension fund buyouts in 2012.

- Over £900 million of buyout deals were transacted over Q3 2012, a total of £2.5 billion thus far this year
- After a slow start in Q1, buyout activity picked up during the second and third quarters of 2012
- Insurers remain positive that a healthy number of transactions will be completed in 2012, particularly at the small and medium end of the market
- Prices have remained relatively stable throughout 2012, though bulk annuity prices are higher than 12 months ago, mainly due to falling bond yields
- Pensioner buy-ins remain the most popular contracts because of their affordability relative to full buyouts

The appetite for de-risking solutions remains strong both for sponsors and trustees, as uncertain economic and financial conditions result in pension schemes being seen increasingly as an unaffordable and potentially destabilising risk, says JLT PCS.

During the third quarter of 2012 over £900m of buyout business was transacted, leading to total business written during the year of £2.5bn. The larger deals were predominantly pensioner buy-ins, with the largest being the £320m Cookson deal with Pension Insurance Corporation.

JLT PCS expects a healthy number of transactions to be completed during the remainder of 2012, particularly at the small and medium end of the market as insurers continue to offer flexible contract structures and payment terms. However, 2012 business levels look set to be lower than previous years, based on business written during the first three quarters of the year.

Continued concerns over the debt crisis in the Eurozone mean that conditions will remain difficult and prices are unlikely to soften any time soon. As a result, buyouts may remain unaffordable for many schemes, especially if additional cash is required from sponsors, who may be unwilling to release capital in the current economic climate.

Martyn Phillips, Director, Head of Buyout Consulting at JLT Pension Capital Strategies, commented: “Whilst low yields have led to higher absolute prices compared to 12 months ago, schemes with significant gilt holdings will have seen significant growth in assets, so that the affordability of the buyout route may actually have increased over the period. These well matched schemes are expected to continue to consider opportunities to de-risk via the purchase of a bulk annuity.

“We anticipate the demand for bulk annuities to increase following the European Commission’s Quantitative Impact Study on its plans to revise the Institutions for Occupational Retirement Provision (IORP) (pension fund) directive, the results of which are due by spring 2013. This is because the QIS could include Solvency II capital requirements for UK schemes, making DB provisions so expensive that bulk annuity prices would become cheaper in comparison.”

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About JLT Pension Capital Strategies

JLT Pension Capital Strategies (PCS) was established in 2006 to help companies to manage their Defined Benefit pension obligations, offering advice on managing scheme assets and liabilities, on communication with trustees and on finding the right funding solutions.

A subsidiary of the Jardine Lloyd Thompson Group, PCS can draw upon skills and experience in the areas of corporate finance, tax, capital markets, asset management, actuarial and general pension regulation and practice to provide strategic advice and practical answers.

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